

**HANCOCK PUBLIC SCHOOLS**  
**HANCOCK, MICHIGAN**

**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTAL INFORMATION**

**June 30, 2007**

## **HANCOCK PUBLIC SCHOOLS**

**JUNE 30, 2007**

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### **ADMINISTRATION**

Superintendent .....	John D. Vaara
High School Principal .....	John Sanregret
Middle School Principal .....	Monica Healy
Elementary Principal .....	Bruce Matson

### **BOARD OF EDUCATION**

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Vice President .....	Mark Peters
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## **TABLE OF CONTENTS**

<b>AUDITOR'S REPORTS</b>	<b><u>Page</u></b>
Independent Auditor's Report .....	5
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards .....	7
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS .....</b>	<b>9</b>
<b>BASIC FINANCIAL STATEMENTS:</b>	
<u>District-wide Financial Statements:</u>	
Statement of Net Assets .....	16
Statement of Activities .....	17
<u>Fund Financial Statements:</u>	
Governmental Funds:	
Balance Sheet .....	18
Statement of Revenues, Expenditures, and Changes in Fund Balances .....	19
Fiduciary Funds - Statement of Fiduciary Net Assets .....	20
<b>NOTES TO FINANCIAL STATEMENTS .....</b>	<b>21</b>
<b>REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION</b>	
Budgetary Comparison Schedule - General Fund .....	37
<b>OTHER SUPPLEMENTAL FINANCIAL INFORMATION</b>	
<u>Major Governmental Funds</u>	
General Fund - Statements of Revenues, Expenditures, and Changes in Fund Balances .....	39
Debt Service Fund - Statements of Revenues, Expenditures, and Changes in Fund Balances .....	42
<u>Non-Major Governmental Funds</u>	
Combining Balance Sheets .....	43
Combining Statements of Revenues, Expenditures, and Changes in Fund Balances .....	44
School Food Service Fund - Statements of Revenues, Expenditures, and Changes in Fund Balances .	45
Athletic Fund - Statements of Revenues, Expenditures, and Changes in Fund Balances .....	46

**TABLE OF CONTENTS**  
**(Continued)**

	<u>Page</u>
<b>OTHER SUPPLEMENTAL FINANCIAL INFORMATION (Continued)</b>	
<u>Fiduciary Funds</u>	
Trust and Agency Fund - Statement of Changes in Assets and Liabilities .....	47
Scholarship Fund - Statement of Changes in Assets and Liabilities .....	48
<b>LETTER OF COMMENTS AND RECOMMENDATIONS .....</b>	<b>49</b>



Bruce A Rukkila, CPA, PC



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### **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education  
Hancock Public Schools  
Hancock, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock Public Schools as of and for the year then ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hancock Public Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Michigan School Auditing Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock Public Schools as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 19, 2007 on our consideration of Hancock Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 9 through 15 and 37, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Hancock Public Schools' basic financial statements. The additional information on pages 39 to 48 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bruce A. Rukhila, CPA, PC*

Certified Public Accountants

October 19, 2007



Bruce A Rukkila, CPA, PC

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Education  
Hancock Public Schools  
Hancock, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock Public Schools as of and for the year then ended June 30, 2007, which collectively comprise the Hancock Public Schools' basic financial statements and have issued our report thereon dated October 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Hancock Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Hancock Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hancock Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hancock Public Schools internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Hancock Public Schools' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Hancock Public Schools' financial statements is more than inconsequential and will not be prevented or detected by Hancock Public Schools' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Hancock Public Schools' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the School District's board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Bruce A. Rukhila, CPA, PC*

Certified Public Accountants

October 19, 2007



**Hancock Public Schools**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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This section of Hancock Public Schools annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follows this section.

**Financial Highlights**

School Bond Loan Fund – For a third year the District did not have to borrow from the School Bond Loan Fund in order to make the interest and principal payments on bond debt. The District also made a payment on the interest due to the School Bond Loan Fund in the amount of \$230,000. This fiscal year the District reduced its long-term debt by \$770,053 for a total debt at fiscal year end of \$12,805,368.

Fixed Assets – The following are fixed assets activities for the fiscal year:

- ▶ On January 3, 2007, the District entered into a capital lease agreement with Grant Capital Management, Inc. in the amount of \$50,500 for "retrofit" lighting project for the high school gym and middle school. This project included motion detectors, exit light replacement, fluorescent lamps and installation light fixtures. The entire project will help save expenditures for the District by energy efficiency.
- ▶ The high school's computer lab was upgraded by a contribution from the Hancock Public Schools Foundation in the amount of \$26,049.
- ▶ In January the ceiling collapsed in the Barkell Elementary building. The ceiling repairs to the upper and lower ceilings amounted to \$14,481.
- ▶ During the fiscal year the District was able to sell three buses, a tractor and the driver education car for a total of \$20,250.

Qualified Zone Academy Bonds – The School District received \$379,255 in Qualified Zone Academy Bonds (Interest Free Money) in fiscal year 2006. During the current fiscal year the District utilized the remaining funds of \$238,000 to purchase four new buses for the transportation department.

Deficit Fund Balance – The District's general fund ended the year with a deficit of \$338,189. Decrease in enrollment and the increase in retirement and health insurance rates are the main reasons for the deficit. The cost of health insurance per employee is approximately \$1,400 of each student foundation allowance. We have attempted to negotiate a less expensive drug/insurance plan with our unions, but have not been successful. We have also reduced staff and reduced expenditures in a variety of areas. The District will continue to monitor its financial situation with budget amendments and look at ways to increase and maintain enrollment.

**Overview of the Financial Statements**

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

*Statement of Net Assets and the Statement of Activities*

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

**Overviews of the Financial Statements - Continued**

The District's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the District's net assets is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- The Statement of Fiduciary Net Assets presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

In the fund financial statements purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future years' debt obligations are not recorded.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Fund, School Food Service Fund, and Athletic Fund.

Major Funds: Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund and Debt Service Fund meet this requirement.

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller funds. Detailed information about non-major funds can be found after the notes to the financial statements.

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information on the general fund.
- Other supplementary information provides detailed information about the General Fund, Debt Service Fund, School Food Service Fund and Athletic Fund.

**Summary of Net Assets**

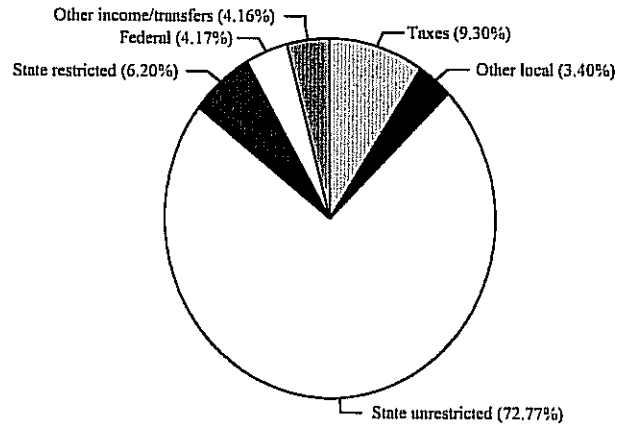
	2007	2006
<b>Assets</b>		
Current and other assets	\$ 1,390,679	\$ 1,403,704
Restricted cash and investments	69,756	313,905
Capital assets - Net of accumulated depreciation	10,774,831	10,901,391
<b>Total Assets</b>	<b>\$ 12,235,266</b>	<b>\$ 12,619,000</b>
<b>Liabilities</b>		
Current liabilities	\$ 3,695,028	\$ 3,418,304
Long-term liabilities	12,204,880	12,941,473
<b>Total Liabilities</b>	<b>15,899,908</b>	<b>16,359,777</b>
<b>Net Assets</b>		
Invested in property and equipment - net of related debt	(3,102,690)	(3,719,641)
Restricted debt service	89,556	151,218
Restricted QZAB loan	59,660	0
Unrestricted	(711,168)	(172,354)
<b>Total net assets</b>	<b>(3,664,642)</b>	<b>(3,740,777)</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 12,235,266</b>	<b>\$ 12,619,000</b>

**Results of Operations in Governmental Activities**

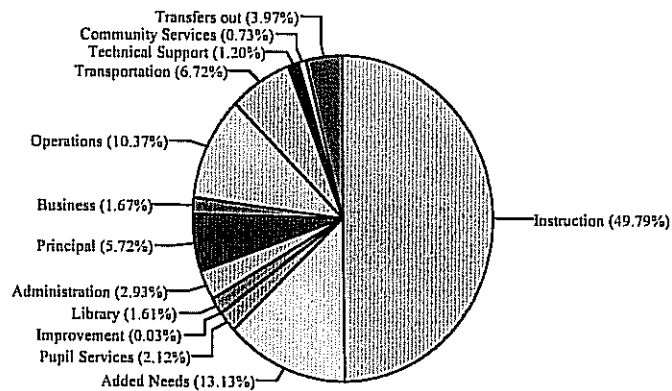
	2007	2006
<b>Program Revenue:</b>		
Charges for services	\$ 182,239	\$ 199,399
Grants and contributions	959,347	993,015
<b>General Revenue:</b>		
Taxes	1,921,537	1,804,447
State foundation allowance	5,425,084	5,625,907
Other	363,031	590,483
<b>Total Revenue</b>	<b>8,851,238</b>	<b>9,213,251</b>
<b>Functions/Program Expenses</b>		
Instruction	5,254,187	5,409,407
Support services	2,414,106	2,501,351
School food services	355,987	363,655
Athletics	157,674	169,406
Interest on long-term debt	587,503	943,778
Other debt	5,646	4,171
<b>Total Expenses</b>	<b>8,775,103</b>	<b>9,391,768</b>
<b>Change in Net Assets</b>	<b>76,135</b>	<b>(178,517)</b>
<b>Net Assets - Beginning</b>	<b>(3,740,777)</b>	<b>(3,562,260)</b>
<b>Net Assets - Ending</b>	<b>\$ (3,664,642)</b>	<b>\$ (3,740,777)</b>

The following charts highlight the District's General Fund activities:

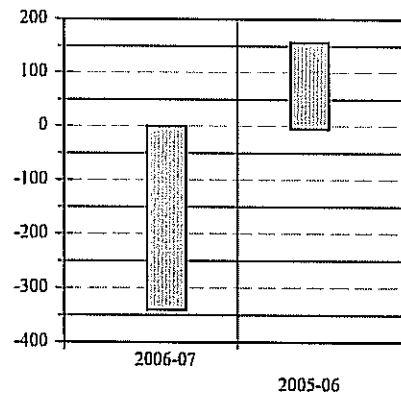
### 2006-07 Revenues



### 2006-07 Expenditures



### Fund Balance Comparison



### **Significant Transactions and Changes in Individual Funds**

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year. A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
General Fund:			
Revenues/Transfers	\$ 7,387,343	\$ 7,980,970	\$ (593,627)
Expenditures/Transfers	\$ 7,882,038	\$ 7,749,914	\$ 132,124
Fund Balance	\$ (338,189)	\$ 156,504	\$ (494,693)
Debt Service Fund:			
Revenues/Transfers	\$ 1,272,443	\$ 1,182,866	\$ 89,577
Expenditures/Transfers	\$ 1,334,105	\$ 1,098,242	\$ 235,863
Fund Balance	\$ 89,556	\$ 151,218	\$ (61,662)
School Food Service Fund:			
Revenues	\$ 366,114	\$ 349,914	\$ 16,200
Expenditures	\$ 353,487	\$ 361,155	\$ (7,668)
Fund Balance	\$ 0	\$ (12,627)	\$ 12,627
Athletic Fund:			
Revenues/Transfers	\$ 145,488	\$ 160,078	\$ (14,590)
Expenditures/Transfers	\$ 150,717	\$ 160,783	\$ (10,066)
Fund Balance	\$ 0	\$ 5,229	\$ (5,229)

General Fund - Decreases in revenue is from unrestricted state aid and restricted state grants totaling \$234,677, prior year's loan proceeds for the QZAB funding of \$376,999, and a reduction in incoming transfers from other schools of \$90,481. The District had increases in revenue taxes by \$32,116, federal grants in the amount of \$16,072 and revenue from sale of fixed assets totaling \$20,530. Major increases in expenditures were in the basic program of instruction by \$40,043 and transportation in the amount of \$263,478 which includes QZAB expenditures for purchasing four buses.

Debt Service Fund - The Debt Service Fund collects property taxes and receives interest earnings on bank deposits to finance the payment of interest and principal on bond issue-related debt of the District. The District did not have to borrow from the School Bond Loan Fund in order to make the interest and principal payments.

School Food Service Fund - This year the General Fund transferred \$25,287 into School Food Service Fund and reduced the amount due to General Fund by \$7,157.

Athletic Fund - The Athletic Fund is supported primarily by operating transfers from the General Fund. This fund also collects revenues in the form of gate receipts. The decrease in expenditures include ice rental and travel expenses.

### **General Fund Budgetary Highlights**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the annual budget prior to the start of the fiscal year on the 1<sup>st</sup> of July. Any amendments to the original budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the fiscal year ended June 30, 2007, the original budget was adopted on June 26, 2006. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. Therefore, the District amended its budget twice during the fiscal year.

**General Fund Budgetary Highlights (Continued)**

	Original Budget	Final Budget	Actual	Variance with final budget	% Variance
Revenues	\$ 7,210,689	\$ 7,040,046	\$ 7,080,295	\$ 40,249	0.6%
Expenditures					
Instruction	\$ 5,034,919	\$ 4,939,934	\$ 4,952,367	\$ (12,433)	-0.3%
Supporting services	2,290,007	2,588,836	2,606,382	(17,546)	-0.7%
Total expenditures	\$ 7,324,926	\$ 7,528,770	\$ 7,558,749	\$ (29,979)	-0.4%
Other financing sources (uses)	\$ 124,315	\$ (4,906)	\$ (16,241)	\$ (11,335)	70%

Other financing uses' major variance is the transfer of funds into the school food service fund.

**Capital Assets and Debt Administration**

Capital Assets: The District's net investment in capital assets decreased by \$126,559 during the fiscal year. The district purchased four buses, upgraded the high school computer lab, ceiling repairs in the middle school, and the lighting project in the middle school and high school. The total cost of new capital assets was \$324,866. New buses were purchased utilizing the QZAB funding. The net decrease in capital assets was due to sale and/or retirement of old assets and depreciation.

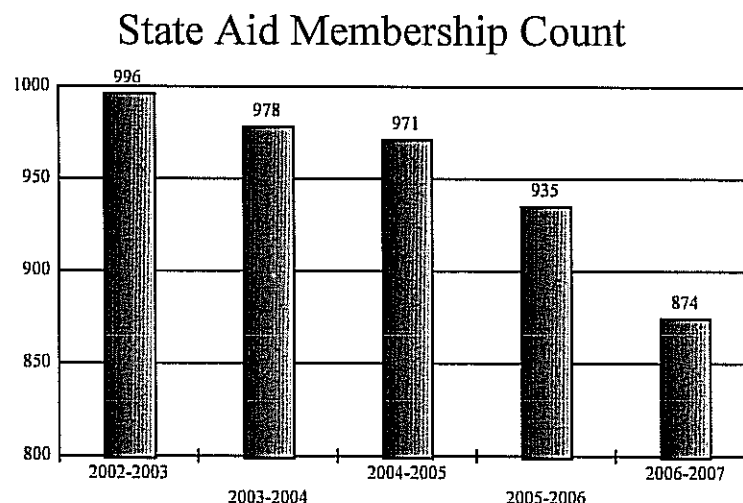
Additional information on the District's capital assets can be found on a page 27 of this report.

Long-term Debt: During the current fiscal year, the District reduced it's debt by \$770,053 for a total debt at fiscal year end in the amount of \$12,805,368. This total amount is backed by the full faith and credit of the District. The District made an interest payment in the amount of \$230,000 to the School Bond Loan Fund. At year end the total accrued interest decreased by \$35,464.

Additional information on the District's long-term debt can be found on a page 29 of this report.

**Known Facts, Decisions, or Conditions Having Significant Effect on Future Operations**

The graph depicts 6.52% decline in the number of students enrolled from the previous year, using the State Aid Membership Count.



**Known Facts, Decisions, or Conditions Having Significant Effect on Future Operations (Continued)**

Our elected officials and administration consider many factors when setting the School District's fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil.

State revenues received by Michigan school districts are approved annually in a State Aid Act. This Act, approved by the State Legislature, provides a foundation amount (amount per student) of \$7,085 for the 2006-07 school year. This represents an increase of \$210.

Approximately seventy-six percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Each year the district is forced to borrow money against projected State Aid to meet payroll needs during the months of August and September. The borrowing increased to \$1,400,000 over the past three years and for the school year 2006-07.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Hancock Public Schools.

**HANCOCK PUBLIC SCHOOLS**  
**STATEMENT OF NET ASSETS**

**June 30, 2007**

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 25,750
Investments	106,145
Taxes receivable	152,925
Accounts receivable	38,441
Due from other governmental units	<u>1,067,418</u>
TOTAL CURRENT ASSETS	<u>1,390,679</u>
NON-CURRENT ASSETS:	
Restricted cash	69,756
Capital assets	17,558,480
Less: Accumulated depreciation	<u>(6,783,649)</u>
Net Capital Assets	<u>10,774,831</u>
TOTAL NON-CURRENT ASSETS	<u>10,844,587</u>
TOTAL ASSETS	<u>\$ 12,235,266</u>
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	\$ 6,503
Accrued expenses	302,565
Accrued interest	1,199,582
State Aid repayment short-term	53,437
Short-term note payable	1,400,000
Short-term capital lease	21,764
Notes payable within one year	1,177
Bonds payable within one year	<u>710,000</u>
TOTAL CURRENT LIABILITIES	<u>3,695,028</u>
NON-CURRENT LIABILITIES	
Bonds payable, due in more than one year	8,926,563
Capital lease, due in more than one year	16,001
Compensated absences	181,514
State Aid repayment	40,603
School bond loan fund payable	<u>3,040,199</u>
TOTAL NON-CURRENT LIABILITIES	<u>12,204,880</u>
TOTAL LIABILITIES	<u>15,899,908</u>
NET ASSETS	
Invested in capital assets, net of related debt	(3,102,690)
Restricted for debt service	89,556
Restricted for QZAB loan	59,660
Unreserved	<u>(711,168)</u>
TOTAL NET ASSETS	<u>(3,664,642)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,235,266</u>

The accompanying notes to the financial statements are an integral part of this statement.



**HANCOCK PUBLIC SCHOOLS**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2007**

	<u>Program Revenues</u>			<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<b><u>FUNCTIONS/PROGRAMS</u></b>				
Government Activities:				
Instruction and instructional support	\$ 5,257,187	\$ -	\$ 765,713	\$ (4,491,474)
Support services	2,411,106	-	-	(2,411,106)
School service	355,987	146,994	193,634	(15,359)
Athletics	157,674	35,245	-	(122,429)
Interest on long-term debt	587,503	-	-	(587,503)
Other debt service	5,646	-	-	(5,646)
Total Governmental Activities	<u>\$ 8,775,103</u>	<u>\$ 182,239</u>	<u>\$ 959,347</u>	<u>(7,633,517)</u>

General Revenues:

Taxes	
Property taxes, levied for general operations	684,574
Property taxes, levied for debt service	1,236,939
Other taxes	24
State school aid - unrestricted	5,425,084
Interest and investment earnings	62,768
Special Item -- Gain on sale of fixed assets	9,538
Other	180,841
Transfers	<u>109,884</u>
Total general revenues and transfers	<u>7,709,652</u>
Change in Net Assets	76,135
Net Assets - Beginning	<u>(3,740,777)</u>
Net Assets - Ending	<u>\$ (3,664,642)</u>

The accompanying notes to the financial statements are an integral part of this statement.

**HANCOCK PUBLIC SCHOOLS**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**June 30, 2007**

	<u>General</u>	<u>Debt Service Fund</u>	<u>Other Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 11,980	\$ -	\$ 13,770	\$ 25,750
Investments	106,145	-	-	106,145
Taxes receivable	73,465	79,460	-	152,925
Accounts receivable	36,054	-	2,387	38,441
Due from other governmental units	1,064,979	-	2,439	1,067,418
Due from other funds	18,596	-	-	18,596
Restricted cash	59,660	10,096	-	69,756
<b>TOTAL ASSETS</b>	<u>\$ 1,370,879</u>	<u>\$ 89,556</u>	<u>\$ 18,596</u>	<u>\$ 1,479,031</u>
<b>LIABILITIES:</b>				
Accounts payable	\$ 6,503	\$ -	\$ -	\$ 6,503
Accrued expenses	302,565	-	-	302,565
Due to other funds	-	-	18,596	18,596
Short-term notes payable	1,400,000	-	-	1,400,000
<b>TOTAL LIABILITIES</b>	<u>1,709,068</u>	<u>-</u>	<u>18,596</u>	<u>1,727,664</u>
<b>FUND BALANCES:</b>				
Reserved	59,660	89,556	-	149,216
Unreserved	(397,849)	-	-	(397,849)
<b>TOTAL FUND BALANCES</b>	<u>(338,189)</u>	<u>89,556</u>	<u>-</u>	<u>(248,633)</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 1,370,879</u>	<u>\$ 89,556</u>	<u>\$ 18,596</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	10,774,831
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(12,991,258)
Accrued interest is not included as a liability in governmental funds	(1,199,582)
Net assets of governmental activities	<u>\$ (3,664,642)</u>

The accompanying notes to the financial statements are an integral part of this statement.

**HANCOCK PUBLIC SCHOOLS**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2007**

	General Fund	Debt Service Fund	Other Non-major Governmental Funds	Totals
REVENUES:				
Local sources	\$ 938,559	\$ 1,272,443	\$ 182,438	\$ 2,393,440
State sources	5,833,966	-	13,672	5,847,638
Federal sources	307,770	-	179,962	487,732
Total revenues	7,080,295	1,272,443	376,072	8,728,810
EXPENDITURES:				
Instruction	4,955,367	-	-	4,955,367
Supporting services	2,603,382	-	-	2,603,382
School service	-	-	353,487	353,487
Athletics	-	-	150,717	150,717
Debt service	-	1,334,105	-	1,334,105
Total expenditures	7,558,749	1,334,105	504,204	9,397,058
Excess (deficiency) of revenue over expenditures	(478,454)	(61,662)	(128,132)	(668,248)
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	(135,530)	-	135,530	-
Incoming transfers - other schools	286,518	-	-	286,518
Proceeds from sale of capital assets	20,530	-	-	20,530
Outgoing transfers - other schools	(176,634)	-	-	(176,634)
Lease payments	(11,125)	-	-	(11,125)
Total other financing sources (uses)	(16,241)	-	135,530	(119,289)
NET CHANGE IN FUND BALANCE	(494,695)	(61,662)	7,398	(548,959)
FUND BALANCES - BEGINNING OF YEAR	156,506	151,218	(7,398)	
FUND BALANCES - END OF YEAR	\$ (338,189)	\$ 89,556	\$ -	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds do not record depreciation and report capital outlays as expenditures; in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation	(126,560)
Accrued expenses are recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	32,311
Capital lease activities increases long-term debt in the statement of activities	(37,765)
Repayment of excess school aid to the State	49,061
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	(708,047)
Change in net assets of governmental activities	\$ 76,135

The accompanying notes to the financial statements are an integral part of this statement.

**HANCOCK PUBLIC SCHOOLS**  
**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**JUNE 30, 2007**

	<u>Fiduciary Fund</u>
ASSETS	
Cash	\$ 63,680
Investments	<u>60,432</u>
TOTAL ASSETS	<u>\$ 124,112</u>
LIABILITIES	
Due to student groups	\$ 52,024
Scholarship funds	<u>72,088</u>
TOTAL LIABILITIES	<u>\$ 124,112</u>

The accompanying notes to the financial statements are an integral part of this statement.

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of Hancock Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant District accounting policies are described below.

**REPORTING ENTITY**

Hancock Public Schools (the "District") is governed by the Hancock Public Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United State of America. Board members are elected by the public and have decision-making authority, the power to designated management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Numbers 14 and 39.

Excluded from the reporting entity:

Hancock Public Schools Foundation, Inc.

This potential component unit has a separately elected board and provides assistance with development, implementation, and/or maintenance of educational programs which significantly contribute to the education and personal growth of Hancock School students. The foundation is excluded from the reporting entity because the school does not have the ability to exercise influence or control over the operations, approve budgets, or provide funding.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues and are reported as general revenues.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term receivables as well as long-term debt obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted for debt service; and unreserved net assets.

The District first utilizes restricted resources to finance qualifying activities.

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The District does allocate indirect costs.

The government-wide focus is more on the sustain ability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Other non-major funds:

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Food Service and Athletic Activities.

Fiduciary Funds – The Trust and Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. This fund is used to account for assets that the District holds for others in an agency capacity (primary student activities).

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Scholarship Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals or private organizations designated for scholarship purposes. The Fund distributes the assets according to scholarship requirements.

Fiduciary funds are not included in the government-wide statements.

**Accrual Method**

The government-wide financials statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION**

**Modified Accrual Method**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is done.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30<sup>th</sup> is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Other Accounting Policies*

Cash and cash equivalents

Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and No. 40, Deposits and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

Michigan law authorizes the District to deposit and invest in:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bill or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
2. Certificates of deposits issued by the State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
5. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
6. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

Property Taxes

Property taxes levied by the District are collected by Franklin Township, Hancock Township, Quincy Township and the City of Hancock and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and becomes a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2007, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund - Non-homestead	17.9856
Debt service fund - Homestead and non-homestead	11.33

A Local Development Financing Authority is located in the District. The Authority has established a SmartZone that captures 9 mills of the 18 mills from the (Non-homestead) taxable value of certain properties.



**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Receivables and Payables

Activity between funds are reported as "due to/from other funds." All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

Inventory

All funds utilize the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

Capital Assets

Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Accrued Benefits

The liabilities for accrued benefits reported in the district-wide statements in the amount of \$181,514, consisted of sick leave and vacation balances.

Teachers with a minimum of 10 years of service in the District, and all non-affiliated staff are entitled to receive 50% of their accumulated sick leave up to a maximum of 160 days upon termination at the current daily rate for substitute teachers (not to exceed \$60). Teachers eligible to retire under the provisions of MPSERS are entitled to receive 60% of their accumulated sick leave upon retirement. Unionized support staff who retire under the provisions of MPSERS, are entitled to receive 50% of their accumulated sick time up to the maximum 180 days at the rate of \$30 per day. Total accrued sick leave as of June 30, 2007 is \$161,133.

Teachers do not accumulate vacation time and the unionized support staff are required to take their vacation during the contract year or else it is forfeited. Non-affiliated staff are required to use all vacation time accrued in a school calendar year, during that school calendar year. Days accrued in a school calendar year and not used will be lost. Total accrued vacation as of June 30, 2007 is \$20,381.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

The School District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) enacted at a regular meeting by School Board approval. The Act provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.
5. Budget appropriations lapse at the end of the fiscal year.

In the body of the financial statements, the School's actual and budgeted expenditures have been shown on a functional basis. Violations, if any, for the general fund are noted in the required supplementary information section.

**NOTE C - CASH AND INVESTMENTS**

As of June 30, 2007 the District had the following investments:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>
Michigan Liquid Asset Fund	<u>\$ 106,145</u>	S&P AAAm

Interest Rate Risk - In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit Risk - State law limits investments in commercial paper corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of Credit Risk - The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007**

**NOTE C - CASH AND INVESTMENTS (Continued)**

Custodial Credit Risk - Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2007, \$201,320 of the District's bank balance of \$445,223 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Custodial Credit Risk - Investments - For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

At year-end, the School District's cash deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the School District is as follows:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Unrestricted cash	\$ 25,750	\$ 0	\$ 25,750
Restricted cash	69,756	63,680	133,436
Total cash and cash equivalents	95,506	63,680	159,186
Investments	106,145	60,432	166,577
Total deposits and investments	\$ 201,651	\$ 124,112	\$ 325,763

**NOTE D - FIXED ASSETS**

Fixed Asset activity of the School District's governmental activities was as follows:

	06/30/06	Additions	Deletions	06/30/07
Land	\$ 171,938	\$ 0	\$ 0	\$ 171,938
Building and additions	14,045,803	60,817	0	14,106,620
Improvements other than building	549,994	0	0	549,994
Equipment and furniture	2,280,019	26,049	14,500	2,291,568
Vehicles	54,233	0	11,000	43,233
School buses	343,624	238,000	186,497	395,127
	<u>17,445,611</u>	<u>\$ 324,866</u>	<u>\$ 211,997</u>	<u>17,558,480</u>
Accumulated depreciation:				
Building and additions	4,432,593	\$ 274,928	\$ 0	4,707,521
Improvements other than building	198,123	27,499	0	225,622
Equipment and furniture	1,559,513	95,352	7,653	1,647,212
Vehicles	49,496	1,260	7,523	43,233
School buses	304,496	41,674	186,109	160,061
	<u>6,544,221</u>	<u>\$ 440,713</u>	<u>\$ 201,285</u>	<u>6,783,649</u>
Net capital assets	<u>\$ 10,901,390</u>			<u>\$ 10,774,831</u>

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007**

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**NOTE D - FIXED ASSETS (Continued)**

Depreciation expense was charged to activities of the School District as follows:

Governmental activities		
Athletic Fund	\$	6,957
School Food Service Fund		2,500
General Fund:		
Instruction		385,532
Operations		4,050
Transportation		41,674
Total governmental activities	\$	<u>440,713</u>

**NOTE E - RECEIVABLES**

Receivables from governmental units at June 30, 2007 consist of the following:

	General Fund	School Service	Total
State	\$ 1,033,386	\$ 2,439	\$ 1,035,825
Local	23,712	0	23,712
Federal	7,881	0	7,881
	<u>\$ 1,064,979</u>	<u>\$ 2,439</u>	<u>\$ 1,067,418</u>

**NOTE F - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. The amounts of inter-fund receivables and payables as of June 30, 2007 are as follows:

Fund	Inter-fund Receivable	Fund	Inter-fund Payable
General	\$ 18,596	Food Service	\$ 13,480
Food Service	0	Athletic	5,116
Total	<u>\$ 18,596</u>	Total	<u>\$ 18,596</u>

Fund	Transfer In	Fund	Transfer Out
Food Service	\$ 25,287	General	\$ 135,530
Athletic	110,243	Athletic	0
Total	<u>\$ 135,530</u>	Total	<u>\$ 135,530</u>

**NOTE G - SHORT-TERM NOTE PAYABLE**

On August 18, 2006, the School District obtained a one year operating loan from the Michigan Municipal Bond Authority in the amount of \$1,400,000 with an interest rate of 3.68%. The loan, which is pledged by future state aid payments, will provide funds for general operating expenditures. Interest is due semi-annually and principal is due at maturity on August 20, 2007.

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007**

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**NOTE H - LONG-TERM DEBT**

2002 Advance Refunding

On February 22, 2002, the District issued \$4,575,000 of general obligation unlimited tax bonds to advance refund \$4,420,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds were used to pay certain costs of issuance relating to the refunding of the 1991 Refunding Bonds dated November 7, 1991 and to establish an "Escrow Fund." The Escrow Fund was held by an escrow agent to pay the principle and interest, and call premiums due on the refunded bonds.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 2.40% to 5.00% per annum. Interest payments started on November 1, 2002, and are payable semi-annually on May 1, and November 1, as indicated. The bonds are to be both term and serial.

The Bonds, or \$5,000 portions thereof, maturing on or after May 1, 2013 shall be subject to redemption prior to maturity, at the option of the Issuer in such order as the Issuer may determine and by lot within any maturity, on any interest payment date occurring on or after May 1, 2012, at par and accrued interest to the date fixed for redemption.

Fiscal Year	November 1	May 1		Total
	Interest	Interest	Principal	
2007-2008	\$ 61,869	\$ 61,869	\$ 360,000	\$ 483,738
2008-2009	55,209	55,209	350,000	460,418
2009-2010	48,384	48,384	345,000	441,768
2010-2011	39,759	39,759	340,000	419,518
2011-2012	32,704	32,704	330,000	395,408
2012-2013	25,691	25,691	315,000	366,382
2013-2016	36,014	36,014	830,000	902,028
TOTAL	<u>\$ 299,630</u>	<u>\$ 299,630</u>	<u>\$ 2,870,000</u>	<u>\$ 3,469,260</u>

2004 Advance Refunding

On November 30, 2004 the District issued \$6,720,000 of general obligation unlimited tax refunding bonds to advance refund \$6,635,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds will be used to provide for the payment of the principal of, interest on and redemption premium on the 1996 Building and Site Bonds. The Escrow Fund will be held by an escrow agent and will be used to pay, when due, the principal and interest, and call premiums coming due on the refunded bonds, whether by maturity or by redemption on May 1, 2006.

The bond issue matures as indicated below with interest at varying rates of 2.5% to 4.65% per annum. Interest payments started on May 1, 2005, and are payable semi-annually on May 1, and November 1 as indicated. The bonds are to be both term and serial.

Optional Redemption: The Bonds or portions of the Bonds in multiples of \$5,000 maturing on or after May 1, 2015, are by subject to redemption at the option of the School District in such order as the School District may determine and by lot within any maturity, on any date occurring on or after May 1, 2014, at par plus accrued interest to the date fixed for redemption.

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007**

**NOTE H - LONG-TERM DEBT (Continued)**

Fiscal Year	November 1 Interest	May 1		Total
		Interest	Principal	
2007-2008	\$ 122,990	\$ 122,990	\$ 350,000	\$ 595,980
2008-2009	118,177	118,178	345,000	581,355
2009-2010	113,002	113,003	350,000	576,005
2010-2011	107,752	107,753	360,000	575,505
2011-2012	101,452	101,453	355,000	557,905
2012-2013	95,240	95,240	350,000	540,480
2013-2018	377,275	377,275	1,690,000	2,444,550
2018-2023	208,803	208,804	1,610,000	2,027,607
2023-2026	42,509	42,509	925,000	1,010,018
	<u>\$ 1,287,200</u>	<u>\$ 1,287,205</u>	<u>\$ 6,335,000</u>	<u>\$ 8,909,405</u>

School Bond Loan Fund

In prior years, the School District has borrowed funds from the Michigan School Bond Loan Fund for the purpose of making principal and interest payments on the above bond issues. In accordance with Act 108, Public Acts of Michigan, 1961, as amended, the State of Michigan can loan the school district funds to make debt payments if, for any reason, the district is unable to pay the principal and interest on bonds when due. At June 30, 2007, the balance due to the School Bond Loan Fund, including accrued interest totaling \$1,137,963, was \$4,178,162.

The loans will be repaid from taxes levied for that purpose. Repayment will commence subsequent to the repayment of the School District's 1991 bond issue. However, repayments shall be made earlier if taxes levied and collected in any particular year exceed those required to repay the bonds. The interest rate associated with loans from the School Bond Loan Fund is established periodically by the State Administrative Board. The rate at June 30, 2007 was 4.75%.

QZAB BONDS

On December 28, 2005, the School District issued \$379,255 of Qualified Zone Academy Bonds (QZAB) to finance the purchase of four school buses, photocopier, printer and scanner, and computers, software, furniture, printers and related items.

The bond issue matures as indicated below and bears an interest rate of 0.00% per annum. The Bonds are not subject to redemption prior to maturity. The School District is required to set-aside installments beginning with the fiscal year 2006-07 and continuing until such time as the set-aside installments, together with interest accrued on such set-aside installments equals \$379,255 on the sixth anniversary of issuance. At fiscal year end the District had set aside \$59,660.

Fiscal Year	Principal
2010-11	\$ 5,000
2011-12	374,255
	<u>\$ 379,255</u>

Durant Bond

As part of the Durant settlement non plaintiff school districts entitled to receive amounts greater than \$75,000 were offered a bonding option. The School District participated in the bonding option and on November 24, 1998 issued \$88,587 of school improvement bonds for the purpose of upgrading educational technology systems, acquiring new equipment for the elementary school, updating the technology infrastructure, constructing a storage facility, and purchasing a school bus.

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007**

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**NOTE H - LONG-TERM DEBT (Continued)**

The bond issue matures as indicated below with interest not to exceed 8% per annum. Interest payments began on May 15, 1999 and are payable annually thereafter on May 15 as indicated. The annual payments will be appropriated by the State of Michigan and will be the only revenue source for making the annual debt service payment on the bonds. The District is under no obligation to make the annual payment in any year the legislature fails to appropriate the proper amount of funds.

The bond is not subject to redemption prior to maturity and the School District will not issue any other bonds or obligations for the purpose of refunding this bond. Even though the State of Michigan will be appropriating funds to pay the principal and interest, the bond is the obligation of the School District, not the State.

As part of the State of Michigan Executive Budget Recommendation for fiscal year 2007, the bonds were "refunded." The debt service payment schedules for the districts that chose to bond have changed. However, the refunding did not change the total payments for any of the borrowers.

<u>Fiscal Year</u>	<u>May 15 Interest</u>	<u>May 15 Principal</u>	<u>Total</u>
2008-2009	\$ 1,291	\$ 4,930	\$ 6,221
2009-2010	1,056	5,165	6,221
2010-2011	11,190	30,607	41,797
2011-2012	553	5,668	6,221
2012-2013	283	5,938	6,221
TOTAL	<u>\$ 14,373</u>	<u>\$ 52,308</u>	<u>\$ 66,681</u>

Installment Loan

On November 18, 2002, the District entered into an installment purchase agreement with Superior National Bank & Trust Company in the amount of \$13,975 for a copy machine. This loan has an annual percentage rate of 5.0% and fixed payments in the amount of \$265.73 will be made monthly which will include interest. The loan with First National Bank Calumet-Lake Linden will expire October 18, 2007, at which time the District will legally own the copier.

The following is a schedule of the loan payments:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007-2008	<u>\$ 14</u>	<u>\$ 1,176</u>	<u>\$ 1,190</u>

Capital Lease Agreements

On January 3, 2007, the District entered into a capital lease agreement with Grant Capital Management, Inc. in the amount of \$46,336 for retrofit lighting project for the high school gym and middle school. This lease has an annual percentage rate of 8% and fixed payments will be made annually which will include interest. The lease will expire March 3, 2009, at which time the District will legally own the project. As of June 30, 2007 the District made \$10,000 in payments. The following is a schedule of the lease payments:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007-2008	\$ 2,235	\$ 21,765	\$ 24,000
2008-2009	499	16,001	16,500
TOTAL	<u>\$ 2,734</u>	<u>\$ 37,766</u>	<u>\$ 40,500</u>

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007**

**NOTE H - LONG-TERM DEBT (Continued)**

State Aid Repayment

In March of 2005, the District received information that the Captured Assessed Valuation (CAV) for the district was overstated resulting in excess school aid of \$267,182 to the district.

The Michigan Department of Education sought to recoup these funds, except for the districts which promptly document that the recoupment would cause the school district to "experience significant hardship."

The District received approval for the payments to be spread over the next five years through reductions in the state aid payment in May of each year.

Remaining payments at June 30, 2007 are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2007-2008	\$ 53,436
2008-2009	36,228
TOTAL	<u>\$ 89,664</u>

The following is a summary of the changes in the general long-term debt for the year ended June 30, 2007:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Current</u> <u>Portion</u>
2002 Refunding Bond	\$ 3,245,000	\$ 0	\$ 375,000	\$ 2,870,000	\$ 360,000
2004 Refunding Bond	6,665,000	0	330,000	6,335,000	350,000
School Bond Loan	3,040,199	0	0	3,040,199	0
QZAB Bond	379,255	0	0	379,255	0
Durant Bond Loan	52,308	0	0	52,308	0
Capital Lease	0	46,336	8,570	37,766	21,764
State Aid Repayment	143,100	0	53,436	89,664	53,437
Installment Loans	4,223	0	3,047	1,176	1,177
	<u>13,529,085</u>	<u>46,336</u>	<u>770,053</u>	<u>12,805,368</u>	<u>\$ 786,378</u>
Accrued Interest	1,235,046	0	35,464	1,199,582	
Accrued Benefits	178,361	3,154	0	181,515	
TOTAL	<u>\$ 14,942,492</u>	<u>\$ 49,490</u>	<u>\$ 805,517</u>	<u>\$ 14,186,465</u>	

As of June 30, 2007, the aggregate maturities of long-term debt for the next 10 years and there after are as follows:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2007-2008	\$ 371,967	\$ 786,377	\$ 1,158,344
2008-2009	348,563	752,159	1,100,722
2009-2010	323,829	700,165	1,023,994
2010-2011	306,213	735,607	1,041,820
2011-2012	268,866	1,064,923	1,333,789
2012-2013	242,145	670,938	913,083
2013-2018	826,578	2,520,000	3,346,578
2018-2023	417,607	1,610,000	2,027,607
2023-2026	1,254,570	3,965,199	5,219,769
TOTAL	<u>\$ 4,360,338</u>	<u>\$ 12,805,368</u>	<u>\$ 17,165,706</u>



**NOTE I - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service; or at age sixty with at least 10 years of credited service; or at age 60 with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

The District was required by the state statute to contribute 16.34% of covered compensation through September 30, 2006 and 17.74% of covered compensation to the Plan for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2007 was \$672,934 and equaled the required contributions.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employees' service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' fund status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among MPERS and employers. The MPERS does not make separate measurements of assets and pension benefit obligations for individual districts.

As of September 30, 2006 for the MPERS as a whole, the actuarial accrued liability was \$48.2 billion. The pension plan net assets were \$43 billion, resulting in a ratio of assets at market value to the actuarial accrued liability of 89%. Employer contributions are based upon level-percent-of-payroll principles so that the contribution rates do not have to increase over decades of time. The District's 2007 contribution represented less than 1% of total contributions required of all participating entities.

Ten year historical trend information showing the MPERS' progress in accumulating sufficient assets to pay benefits when due is presented in the MPERS' September 30, 2006 annual report.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employees. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007**

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**NOTE I - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)**

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

**NOTE J - FOUNDATION REVENUE**

Effective as of fiscal year 1994-95 the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. The foundation allowance is based on the average of pupil membership counts taken in February and September of the previous year.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The School District levies 18 mills for non-homestead property taxes. State revenue recognized during the foundation period (currently the fiscal year) is as follows:

2006-07 Foundation		\$	7,085.00
Less Local Support:			
Non-Homestead Tax Value	40,945,266		
Multiplied by mills	0.018		
Total Local Support	737,015		
Divided by General Education K-12 membership	848.55		
Calculated Local Support			(868.56)
		\$	<u>6,216.44</u>

**NOTE K - RECONCILIATION OF MDE GRANT REPORTS TO FEDERAL REVENUES**

The amounts reported as current payments on MDE grant reports prepared by the State of Michigan, reconcile with the federal revenue on the Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances on page 19 as follows:

Total current payments per MDE grant reports	\$	463,097
Less prior year accounts receivables:		
Less State School Breakfast grant		(655)
Less prior year accounts receivables		(14,979)
Plus amount not reported on MDE grant report		15,409
Plus accounts receivable		7,881
Plus USDA Commodities		16,979
Total Federal Financial Assistance	\$	<u>487,732</u>

The School District expended less than \$500,000 in Federal awards during the fiscal year ended June 30, 2007 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

**HANCOCK PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2007**

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**NOTE L - CONTINGENT LIABILITIES**

Risk Pool

Hancock Public Schools is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Hancock Public Schools joined together with other school districts currently operating a common risk management and insurance program. Hancock Public Schools pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

Hancock Public Schools continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2007, which can be obtained through the School District

**NOTE M - RESERVED FUND BALANCE**

The Debt Service Fund has a reserved fund balance for the retirement of debt.

**NOTE N - DEFICIT FUND BALANCE**

The financial statements show a fund deficit at June 30, 2007 in the General Fund of \$338,189.

The District's plans to eliminate the deficit over the next two years with reducing expenditures. The reduction of these expenditures was addressed in the budget developed in June of 2007. The areas included eliminating and consolidating staff positions, cost effective purchases of supplies and materials, and retirement of staff members.

The District is aware that the deficit elimination plan must be strictly adhered to for the 2007-2008 school year. If the plan is not followed stringently, more cost-reduction measures will be taken. Such measures may include the elimination and/or reduction of an administrative staff position, counselor, librarian, and all para-professional positions

**NOTE O - SUBSEQUENT EVENT**

Michigan Municipal Bond Authority: On August 20, 2007, the School District entered into a note with the Michigan Municipal Bond Authority. The principal amount and the interest rate on the Note shall not exceed \$1,600,000 and 3.68% per annum, respectively. The note matures on August 20, 2008. The loan, which is pledged by future state aid payments, will provide funds for general operating expenditures.

**REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION**

**HANCOCK PUBLIC SCHOOLS**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Variance
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES:				
Local sources	\$ 908,579	\$ 960,171	\$ 938,559	\$ (21,612)
State sources	6,008,476	5,776,605	5,833,966	57,361
Federal sources	293,634	303,270	307,770	4,500
TOTAL REVENUE	7,210,689	7,040,046	7,080,295	40,249
EXPENDITURES:				
Instruction	5,034,919	4,939,934	4,952,367	(12,433)
Supporting services	2,290,007	2,588,836	2,606,382	(17,546)
TOTAL EXPENDITURES	7,324,926	7,528,770	7,558,749	(29,979)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(114,237)	(488,724)	(478,454)	10,270
OTHER FINANCING SOURCES (USES)				
Incoming transfers - other schools	393,263	281,000	286,518	5,518
Sale of fixed assets	-	20,530	20,530	-
Loan proceeds	-	-	-	-
Lease payments	-	(11,125)	(11,125)	-
Operating transfers out	(109,993)	(118,676)	(135,530)	(16,854)
Other outgoing transfers	(158,955)	(176,635)	(176,634)	1
Total other financing sources (uses)	124,315	(4,906)	(16,241)	(11,335)
NET CHANGE IN FUND BALANCE	\$ 10,078	\$ (493,630)	(494,695)	\$ (1,065)
FUND BALANCE - BEGINNING OF YEAR			156,506	
FUND BALANCE - END OF YEAR			\$ (338,189)	

**SUPPLEMENTAL FINANCIAL INFORMATION**

**HANCOCK PUBLIC SCHOOLS**  
**GENERAL FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**Year Ended June 30, 2007**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>2006</u>
REVENUES:				
Local sources:				
Taxes:				
Current taxes	\$ 727,817	\$ 684,574	\$ (43,243)	\$ 652,427
Penalties & interest on delinquent taxes	5,000	2,586	(2,414)	2,617
Total taxes	732,817	687,160	(45,657)	655,044
Other local sources:				
Investment revenue	29,000	31,160	2,160	21,843
Tuition	17,000	7,058	(9,942)	8,546
Rentals	25,000	32,514	7,514	24,176
Contributions	20,000	43,798	23,798	29,068
Day Care/Latch Key fees	50,000	49,315	(685)	48,430
Miscellaneous	86,354	87,554	1,200	77,270
Total other local sources	227,354	251,399	(24,045)	209,333
Total local sources	960,171	938,559	(21,612)	864,377
State sources:				
Unrestricted grant - State Aid	5,319,753	5,376,023	56,270	5,573,043
Restricted grants:				
Durant proceeds	8,859	8,859	-	8,859
Special Education	230,856	230,856	-	217,446
School Readiness	36,300	36,300	-	95,700
Middle School Math	9,622	9,622	-	-
At-risk	168,579	168,565	14	172,685
Other state revenue	2,636	3,741	1,105	910
Total restricted grants	456,852	457,943	1,091	495,600
Total state sources	5,776,605	5,833,966	57,361	6,068,643
Federal sources:				
Title I	120,681	120,681	-	149,252
Title V	794	794	-	395
Title II	50,317	50,317	-	51,929
Comprehensive School Reform	131,478	135,978	(4,500)	90,122
Total federal sources	303,270	307,770	4,500	291,698
TOTAL REVENUES	7,040,046	7,080,295	40,249	7,224,718

**HANCOCK PUBLIC SCHOOLS**  
**GENERAL FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE (Continued)**  
**Year Ended June 30, 2007**

EXPENDITURES:	Budget	Actual	Variance	2006
Instruction:				
Basic program:				
Elementary School	1,627,339	1,610,773	16,566	1,649,777
Middle School	1,091,451	1,092,797	(1,346)	898,665
High School	1,186,071	1,215,082	(29,011)	1,330,167
Total basic program	3,904,861	3,918,652	(13,791)	3,878,609
Added needs:				
Special education - Elementary School	697,741	695,576	2,165	743,359
School Readiness	51,075	50,894	181	98,700
Compensatory education	120,681	121,653	(972)	149,156
At-Risk	168,576	168,592	(16)	156,246
Total added needs	1,038,073	1,036,715	1,358	1,147,461
Total instruction	4,942,934	4,955,367	(12,433)	5,026,070
Supporting services:				
Pupil:				
Guidance	141,142	138,936	2,206	147,275
Health	26,782	28,064	(1,282)	60,732
Total pupil	167,924	167,000	924	208,007
Instructional staff:				
Improvement of instruction	2,520	2,520	-	7,291
Library	127,670	126,935	735	128,893
Total instructional staff	130,190	129,455	735	136,184
General administration:				
Board of education	38,277	38,647	(370)	71,582
Executive administration	191,072	189,276	1,796	192,027
Total general administration	229,349	227,923	1,426	263,609
School administration:				
Office of principal - Elementary School	138,350	140,077	(1,727)	134,579
Office of principal - Middle School	152,237	150,734	1,503	149,419
Office of principal - High School	160,701	159,211	1,490	158,874
Total school administration	451,288	450,022	1,266	442,872
Business-fiscal services	115,322	131,147	(15,825)	120,230
Operation & maintenance	810,165	816,406	(6,241)	809,146
Pupil transportation	528,497	529,037	(540)	265,559
Other technical support	94,587	94,585	2	170,853



**HANCOCK PUBLIC SCHOOLS**  
**GENERAL FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE (Continued)**  
**Year Ended June 30, 2007**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>2006</u>
Community services	<u>58,514</u>	<u>57,807</u>	<u>707</u>	<u>61,664</u>
Total supporting services	<u>2,585,836</u>	<u>2,603,382</u>	<u>(17,546)</u>	<u>2,478,124</u>
TOTAL EXPENDITURES	<u>7,528,770</u>	<u>7,558,749</u>	<u>(29,979)</u>	<u>7,504,194</u>
EXCESS OF REVENUES OVER EXPENDITURES	(488,724)	(478,454)	10,270	(279,476)
OTHER FINANCING SOURCES (USES):				
Incoming transfers - other schools	281,000	286,518	5,518	376,999
Operating transfer out	(118,676)	(135,530)	(16,854)	(104,765)
Loan proceeds	-	-	-	379,255
Sale of fixed assets	20,530	20,530	-	-
Other outgoing transfers	(176,635)	(176,634)	1	(140,955)
Lease payments	(11,125)	(11,125)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(4,906)</u>	<u>(16,241)</u>	<u>(11,335)</u>	<u>510,534</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (493,630)</u>	(494,695)	<u>\$ (1,065)</u>	231,058
FUND BALANCE, BEGINNING OF YEAR		<u>156,506</u>		<u>(74,552)</u>
FUND BALANCE, END OF YEAR		<u>\$ (338,189)</u>		<u>\$ 156,506</u>

**HANCOCK PUBLIC SCHOOLS**  
**DEBT SERVICE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2007**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>2006</u>
REVENUES:				
Current taxes	\$ 1,205,510	\$ 1,236,939	\$ 31,429	\$ 1,148,108
Interest income	32,000	31,433	(567)	29,594
Penalties & interest on delinquent taxes	<u>6,000</u>	<u>4,071</u>	<u>(1,929)</u>	<u>5,164</u>
TOTAL REVENUES	<u>1,243,510</u>	<u>1,272,443</u>	<u>28,933</u>	<u>1,182,866</u>
EXPENDITURES:				
Interest on bonds	392,968	392,967	1	426,885
Redemption of bond principle	935,000	935,000	-	664,288
Agent Fees	3,800	3,694	106	1,041
Other expense	<u>2,445</u>	<u>2,444</u>	<u>1</u>	<u>6,028</u>
TOTAL EXPENDITURES	<u>1,334,213</u>	<u>1,334,105</u>	<u>108</u>	<u>1,098,242</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (90,703)</u>	(61,662)	<u>\$ 29,041</u>	84,624
FUND BALANCE, BEGINNING OF YEAR		<u>151,218</u>		<u>66,594</u>
FUND BALANCE, END OF YEAR		<u>\$ 89,556</u>		<u>\$ 151,218</u>

**HANCOCK PUBLIC SCHOOLS**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEETS**  
**June 30, 2007**

	School		Totals	
	Service	Athletic	Memorandum Only	
			2007	2006
ASSETS AND OTHER DEBITS:				
Cash	\$ 9,292	\$ 4,478	\$ 13,770	\$ 10,257
Receivables	1,749	638	2,387	1,405
Due from other governmental units	2,439	-	2,439	2,270
TOTAL ASSETS	<u>\$ 13,480</u>	<u>\$ 5,116</u>	<u>\$ 18,596</u>	<u>\$ 13,932</u>
LIABILITIES:				
Accounts payable	\$ -	\$ -	\$ -	\$ 693
Due to other funds	13,480	5,116	18,596	20,637
TOTAL LIABILITIES	<u>13,480</u>	<u>5,116</u>	<u>18,596</u>	<u>21,330</u>
FUND EQUITY:				
Fund balance - unreserved	-	-	-	(7,398)
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 13,480</u>	<u>\$ 5,116</u>	<u>\$ 18,596</u>	<u>\$ 13,932</u>

**HANCOCK PUBLIC SCHOOLS**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING STATEMENTS OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2007**

	School		Totals	
	Service	Athletic	Memorandum	Only
			2007	2006
REVENUES:				
Local sources	\$ 147,193	\$ 35,245	\$ 182,438	\$ 199,510
State sources	13,672	-	13,672	10,577
Federal sources	179,962	-	179,962	195,140
TOTAL REVENUES	340,827	35,245	376,072	405,227
EXPENDITURES:				
Salaries	113,571	75,669	189,240	205,805
Employee benefits	77,384	19,017	96,401	63,368
Purchase services	819	31,747	32,566	44,528
Supplies, materials, and other	161,713	24,284	185,997	208,237
TOTAL EXPENDITURES	353,487	150,717	504,204	521,938
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(12,660)	(115,472)	(128,132)	(116,711)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	25,287	110,243	135,530	104,765
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	12,627	(5,229)	7,398	(11,946)
FUND BALANCE, BEGINNING OF YEAR	(12,627)	5,229	(7,398)	4,548
FUND BALANCE, END OF YEAR	\$ -	\$ -	\$ -	\$ (7,398)

**HANCOCK PUBLIC SCHOOLS**  
**SCHOOL SERVICE FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2007**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>2006</u>
REVENUES:				
Local sources:				
Student lunches	\$ 125,000	\$ 121,636	\$ (3,364)	\$ 115,564
A-La-Carte	1,706	261	(1,445)	1,031
Adult lunches	7,000	4,658	(2,342)	8,166
Other charges for services	21,000	20,439	(561)	19,325
Earnings on investments	200	199	(1)	111
Total local sources	<u>154,906</u>	<u>147,193</u>	<u>(7,713)</u>	<u>144,197</u>
State sources	<u>13,500</u>	<u>13,672</u>	<u>172</u>	<u>10,577</u>
Federal sources:				
School lunch program	165,000	162,983	(2,017)	175,569
USDA entitlements	-	16,816	16,816	17,336
USDA bonus entitlements	-	163	163	2,235
Total federal sources	<u>165,000</u>	<u>179,962</u>	<u>14,962</u>	<u>195,140</u>
TOTAL REVENUES	<u>333,406</u>	<u>340,827</u>	<u>7,421</u>	<u>349,914</u>
EXPENDITURES:				
Salaries	113,576	113,571	5	136,564
Employee benefits	56,834	77,384	(20,550)	47,569
Purchase services	819	819	-	-
Supplies, materials, and other	<u>141,771</u>	<u>161,713</u>	<u>(19,942)</u>	<u>177,022</u>
TOTAL EXPENDITURES	<u>313,000</u>	<u>353,487</u>	<u>(40,487)</u>	<u>361,155</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	20,406	(12,660)	47,908	(11,241)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	<u>-</u>	<u>25,287</u>	<u>(25,287)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (20,406)</u>	12,627	<u>\$ (22,621)</u>	(11,241)
FUND BALANCE, BEGINNING OF YEAR		<u>(12,627)</u>		<u>(1,386)</u>
FUND BALANCE, END OF YEAR		<u>\$ -</u>		<u>\$ (12,627)</u>

**HANCOCK PUBLIC SCHOOLS**  
**ATHLETIC FUND**  
**STATEMENTS OF REVENUE, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2007**

	<u>2007</u>	<u>2006</u>
REVENUES:		
Local sources:		
Gate receipts	\$ 29,683	\$ 46,475
Other	<u>5,562</u>	<u>8,838</u>
TOTAL REVENUES	<u>35,245</u>	<u>55,313</u>
EXPENDITURES:		
Salaries	75,669	69,241
Employee benefits	19,017	15,799
Purchase services	31,747	44,528
Supplies, materials, and other	<u>24,284</u>	<u>31,215</u>
TOTAL EXPENDITURES	<u>150,717</u>	<u>160,783</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(115,472)	(105,470)
OTHER FINANCING SOURCES (USES)		
Operating transfers in	<u>110,243</u>	<u>104,765</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	(5,229)	(705)
FUND BALANCE, BEGINNING OF YEAR	<u>5,229</u>	<u>5,934</u>
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ 5,229</u>

**HANCOCK PUBLIC SCHOOLS**  
**TRUST AND AGENCY FUND**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**Year Ended June 30, 2007**

	Balance July 1, 2006	Receipts	Disbursements	Balance June 30, 2007
ASSETS:				
Cash	\$ 48,924	\$ 135,326	\$ 132,226	\$ 52,024
LIABILITIES:				
Due to Student Groups:				
Elementary School	\$ 11,389	\$ 69,183	\$ 68,726	\$ 11,846
Middle School	3,948	5,603	4,155	5,396
High School	33,587	60,540	59,345	34,782
TOTAL LIABILITIES	\$ 48,924	\$ 135,326	\$ 132,226	\$ 52,024

**HANCOCK PUBLIC SCHOOLS**  
**SCHOLARSHIP FUND**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**Year Ended June 30, 2007**

	<u>Balance</u> <u>July 1, 2006</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u> <u>June 30, 2007</u>
ASSETS:				
Cash and investments	\$ 70,831	\$ 3,727	\$ 2,470	\$ 72,088
LIABILITIES:				
Scholarship funds				
Mary C. Orella	\$ 70,831	\$ 3,727	\$ 2,470	\$ 72,088





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## **LETTER OF COMMENTS AND RECOMMENDATIONS**

Board of Education  
Hancock Public Schools  
Hancock, Michigan

In connection with our audit of the financial statements of Hancock Public Schools, as of and for the year ended June 30, 2007, the following concerns regarding the accounting records, procedures, and internal control structure came to our attention.

Our comments are based upon conditions noted during our audit and are not intended to be all inclusive. These comments are submitted as constructive suggestions to assist you in strengthening controls and procedures and are not intended to reflect on the honesty or integrity of any individual.

### **Public Act 621 - Budget Over Expenditures**

Public Act 621 of 1978, as amended, prohibits expenditures in excess of budgeted appropriations. Instances of violations of these provisions are readily ascertainable from the financial statements and the accompanying information. There were no material overages in the individual budgeted funds.

### **Deficit Fund Balance**

The financial statements show a fund deficit at June 30, 2007 in the General Fund of \$338,189.

We recommend that the board continue to monitor the general fund balance and take the steps to eliminate the deficit. In accordance with the State School Aid Act of 1979, the school must formulate and file a deficit elimination plan with the Michigan Department of Education. The District will submit a plan prior to December 15, 2007. The school district is required to submit to the Michigan Department of Education, for approval, a budget for the current school fiscal year and a plan to eliminate the district's deficit no later than the end of the second school fiscal year after the deficit was incurred.

### **Reconciliation of Taxable Value**

The State School Aid Act of 1979, Act 94 of 1979, Article 15, 388.1751, §151, requires verification of school districts taxable value. We found discrepancies during our reconciliation of the district's homestead and non-homestead taxable values. The DS4410 does not agree to taxable value documentation and the State Aid Status Report. The District is required to notify the Houghton County Treasurer and the Michigan Department of Education regarding these discrepancies. We have provided all documentation to the district and recommend that they notify the respective parties.

We would like to thank the administrative staff for the cooperation we received during our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

It has been a pleasure to provide audit services to the Hancock Public Schools. Management was prepared for the audit, providing us with all supporting documents requested. Management was friendly, conscientious and very helpful.

We appreciate your business, thank you.

*Bruce A. Rukhila, CPA, PC*

Certified Public Accountants

October 19, 2007